Lacuna in Practices of Accounting and Auditing Professionals Leading to Financial Frauds in India

Synopsis

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Submitted by

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INTRODUCTION

Fraud means false representation or entries made intentionally or without having belief in its truth with a view to defraud somebody. As per AAS 4 (SA 240, Revised), fraud refers to intentional misstatement or omission of disclosure of amounts in financial statements. Management, employees or third parties may get involved in committing fraud in order to obtain illegal advantage or personal gains. Frauds are generally committed in form of either misappropriation of assets that may be called "employee fraud" or manipulation of accounts that may be referred as "management fraud". Embezzlement of cash, misappropriation of goods and fraudulent manipulation of accounts are the three chief ways in which frauds can be perpetrated as discussed (a) Embezzlement of cash (b) Misappropriation of goods (c) Fraudulent manipulation of accounts.

Great financial frauds at the end of the past and the beginning of this century have imposed the need for deeper investigation of irregularities in the area of financial reporting. In many quarters, forensic accounting is equated to financial audit but they appear to be miles apart. Forensic accounting arises from the effect and cause of fraud and technical error made by human. Forensic accounting is usually described as the integration of accounting and auditing skills with investigative techniques and professional skepticism. According to Arokiasamy and Cristal (2009), accounting and auditing can be described as the application of financial skills and investigative mentality to unsettled issues, conducted within the context of rules of evidence. Bologna and Lindquistn (1987) asserted that forensic accounting as a discipline encompasses fraud knowledge, financial expertise, and a sound knowledge and understanding of business reality and the working of the legal system. Mukoro et al. (2013) noted that the first and most convoluted means of carrying out fraudulent activities in many organizations isthrough the accounting and financial records. It was revealed that the management of Enron-the celebrated energy company in USA defrauded by her top management used creative accounting to make the company look good and powerful on paper than it was using special purpose subsidiaries that have a single aim and that did not need to be included in Enron's balance sheet to hide investment activities and financial losses. However, forensic accounting helped subsequently to determine that many Enron's recorded assets and profits were inflated, and in some cases, completely fraudulent and nonexistent. Some of the company's debts and losses were recorded in offshore

entities, remaining absent from Enron‟s financial statements (Mukoroet al., 2013).

The practice of creative accounting started since the industrial revolution and continued up to these days, but observations showed that these practices increased since the starting of 1980‟s of the previous century. As a result of the practices of creative accounting, several large firms failed and shut down around the world. Several terms appeared to express the effect of management on the amounts of items included in the financial statements. Those terms include: accounting manipulation, fraudulent reporting, income smoothing, earnings management, and creative accounting.

The questionable issue is why and how managements may practice creative accounting. A financial statement is a summary of all events that took place in a particular firm during an accounting period. These statements are expected to be prepared based on the generally accepted accounting principles (GAAP). The GAAP determines contents, items, order, form, measurements methods, and the time of recognition. Managements of firms are responsible for the preparation and for the contents of these statements through its determination of the accounting methods and procedures that accountants of firms can use to prepare these statements. Hence, observations have shown that managements od some firms attempt to practice creative accounting.

Sometimes managements often exploit the available high degree of flexibility in the accounting standards, such as selection among the available methods of depreciation in determining the annual depreciation expenses in order to reduce the total amount of expenses, and therefore, increase the amount of income. The selection among the available methods of inventory valuation sometimes appears approximate by some management to increase inventory thereby leading to higher amount of income generated by overvalued inventory.

REVIEW OF LITERATURE

Review of the literature consists of two parts “review‟ and “literature‟. The “literature‟ as used in enlarge reference to the knowledge of a particular area of investigation of any discipline. Term “review‟ is to systematize the knowledge, facts, data and information that the study would bending to this world. Review of literature helps a researcher to get familiar with the selected research problem and may provide some strategies and guidelines in selecting a proper research methodology. Review of literature is helpful in framing the research problem and helps the investigator in deciding the most

suitable methodology to be used. A literature review is an evaluative report of information found in the literature related to the selected area of study.

TABLE 1: INTERNATIONAL REVIEWS

S No	YEAR	AUTHOR	TITLE	OBJECTIVE	FINDINGS
1.	2021	Gupta Ridhi Vij sanket	Financial frauds and Forensic accounting : Empirical Evidence from Indian corporate	To examine the importance of forensic accounting. To examine which techniques of forensic accounting is used by accounting professionals in order to detect and prevent from financialfrauds	The study reveals that importance of forensic accounting in fraud detection and prevention in Indian corporate sector. To know its importance of data from 100 from accounting professionals were collected and then by applying various statistical tests. It was found that forensic accounting practices has positive effective detection and prevention of financialfrauds in India.
2.	2020	Cugova AnetaCug Jugraj	Motivation for the use of creative accounting techniques in the conditions of the globalized business environme nt.	The main objective is to characterize the creative accounting and motivation that needs to the use of individual techniques creative accounting.	The study concludes that, the topic of creative accounting and to mention the Main motivation factors that need to the use of creative accounting practices. By applying individual methods and techniques of creative accounting financial statements do notfulfill their main role and provide distorted information about the company image forensic accounting with its methods and procedure, contribution discrepancies in the financial statements.
3.	2020	Osunwole Olatunji	Forensic Accountin g and fraud mitigation in the manufactur ing industry in Nigeria	To Examine the Effectiveness of Forensic Accounting in reducing financial fraudin Nigerian manufacturing Industry. To determine whether forensic accounting improves manufacturing companies internal control system.	The study concludes that fraud investigation practices are very important for the reduction of financial fraud inmanufacturing companies or the inclusion of forensic accounting in the code of governance corporate practices will drastically reduce financial fraud inmanufacturing Industry
4.	2020	I. Emma. Okoye	Impact of	To main objective is to reducing	The study shows concludes that, Companies such as deposit

		N. obiomajames	creative accounting techniques on firm financial performance: A study of selected firms in Nigeria.	effect the of creative accounting techniques on the reliability of financial reporting.	money banks are always in dilemma on sweetening the quality of their assets or simply the true nature to avoid sanction which supports the earlier study of Okpara (2009) had questioned banking returns in face of high-level liquidity problem. He concluded that banks declare unearned profit to please investors.
5.	2017	Grower Lal Krishnan Gautam Veena	Forensic Accounting In India: fraud prevention and detections	To know the various types of Frauds. To understand the role of forensic accounting (techniques) in fraud Examination.	The study concludes that, given pervasiveness of fraud and the necessity of special skills in order to uncover such fraud, it becomes important to train forensic accountants. ICAI should also formulate an accounting standard on forensic accounting so that forensic accountants help the law enforcement and regulatory bodies in curbing white - collar and financial scams.
6.	2016	Bhasin Lal Madan	Accounting Manipulation Practice in Financial statements: An Experience of an Asian Economy	The main objective of this study to highlight the Satyam computer services manipulated accounting.	The study concluded that, as corporate India absorbs the implications of Raju actions, businessleader needs to push And corporate governance regulations that keep an effective check and balances on companies. Thank god lot of change has been made more specifically, about corporate governance, corporate disclosures norms, audit committees, independent directors etc. study conducted that, fraudulent financial reporting practices should be considered as a seriouscrime.
7.	2016	Bhasin Lal Madan	Fraudulent Reporting Practices: The inside story of Indian Enron	To understand the technical and accounting aspects of the corporate fraud	This study concluded that, the typicalorganization loses 5% of revenue in a given year fraud. As a result of India ranks second in term of victim organization reporting fraud cases. Finally, the responsibility of preventing and detecting and investigating corporate and financial frauds rests squarely on BOD and this requires them to adopt preventive steps.
8.	2016	Bhasin Madan Lal	Contribution of	To determine whether skills	This study reveals that some skills are relevant, and

			forensic accounting to corporate governanc e. The explorator y study of Asian country	required by the FCAs in the developed countries significantly of clients and accountants in India.	important to the outcome of FA education educators can use these skills as guide to direct academic curriculum with the proper learning outcome objectives.
9.	2015	Samsudin And Ayoib Popoola	Forensic Accountin g and Auditor Knowledg e and skills Requireme nts for performan ce fraud the public sector	To examine the relationship between KR (forensic accountant and Auditor) and TPFRA in the Nigerian public Sector. To investigate the relationship between SR (Forensic accountant and Auditor) and TPFRA in the Nigerian public sector.	This study revealed that, the forensic accountant has significant higher levels of KR, SR and TPFRA than the auditor in Nigerian Environment and study found that no nation is immune from fraud, and though costly can be revealed by engaging the services of forensic accountants in the public sector notwithstanding the deployment of sophisticated technology.
10.	2015	Blessing Ngozi Ijeoma	Empirical Analysis the use on of forensic accounting techniques in curbing creative accounting	To examine forensic accounting techniques in curbing creative accounting.	The study revealed that the strong existence exists on the effectiveness of techniques used by forensic accountants in helping to curb the problem of creative accounting The results shown that there exists strong evidence that forensic accountants have enhance their efficiency overtime.
11.	2014	Yadav Brijesh	Creative Accountin g- An Empirical study from profession al prospectiv e.	To identify techniques that is associated with creative accounting. To develop research practice that can answerthe purpose of the research.	The that, study concludes creative accounting and corporate governance relationship between other factors also managers always try to boost profit of the firm if his in countries are linked to performance of the company audit standard also play role in creative accounting if there is audit standard in the firm it reduces creative accounting.
12.	2014	Pranathi Shaheen Ifath Sultana Asra	Forensic Accountin g and Fraud Examinati	To understand the role of forensic accounting in fraud examination in India.	The study concludes that forensic accounting in India is relatively a new area of study, a series of working sharing of corporate experiences, should

		Noor Amathun	on in India.	To examine the various applications of forensic accounting in Indian firms.	be undertaken and encouraged toassure a common understanding. Indeed, there is great future in a forensic accounting as separate "niche" consulting, it is being used as an investigative tool, rather than a preventive tool.
13.	2013	Enofe.O.A Okpako O.P.	The impact of Forensic Accountin g on Fraud Detection	The main objective of the study is examined to the impact forensic of accounting on fraud detection. To find out the manner in which forensic accounting affect detection fraud. To ascertain if forensic accounting will curb fraudulent activities.	The study concludes that forensic accounting services provide firms with the necessary deter tools to fraudulent activities but does not curb fraudulent activities and forensic accounting will provide litigationsupport service with appropriate provision of professional services in the law courts. Forensic accounting institute will good corporate governance in the public sector which will install public confidence in the government and the entire system.
14.	2013	Gupta Renu	Errors Frauds financial Transactio ns: Auditors Opinion	The main objective is to identify the transactions which are more prone to error and frauds.	The study concludes that, relatively all types of errors and frauds are prevailing especially understatement or Overstatement of accounting figures and fraudulentfinancial Reporting is mostdifficult to be detected. Sincere and quick action are required on the part of authorities to make the auditors independent of the client and internal check is the most powerful weapon to present errors and frauds at least atemployee level.
15.	2012	Samuel Adenirian Fakile	Economic and financial crime forensic accounting as Antidote	To assess the Relationship between Forensic Accounting and Litigation support services in Nigeria courts. To evaluate how Forensic accounting can provide investigation and litigation support services.	The study concludes that, forensic accounting is a financial strategy to curb and resolve economic and financial crimes in Nigeria economy. The alternate of the four hypotheses were accepted, we concludethat the among others government of Nigeria should enact on Act that will make forensic accounting a practice in Nigeria so that economic and financial crimes can become history.

TABLE 2: NATIONAL REVIEWS

S.No.	Year	Author	Title	Objective	Findings
1.	2020	Shah Ketan Nirali	"Forensic Accounting An overview In Indian context"	To formulate and establish a wide-ranging corporate governance policy and the statutory audit function. To create an optimistic work milieu and help reinforce auditors' impartiality.	The study concludes that forensic accounting has come up as an effective tool for preventing this menace. The practice and development of forensic accounting are relatively very much lower in developing countries like India thatthose in develop countries.
2.	2020	Das Kumar Pradip	"Forensic Accounting in India"	To cognize the role of forensic accounting in fraud examination in India. To examine the application of forensic accounting in India.	The study concludes that unawareness of the sophisticated forensic techniques and scarcity of qualified and Well – Trained professionals contribute to its rudimentary stage of Evolution in the aftermath of increasing financial crimes. This Urge the pressing need for the development of forensic as a separate discipline.
3.	2017	Abdelwhab Elgalimusq Adam Ismael Ahmed Yousif	The Relationship between education of forensic accounting and accounting Student competence in Sudanese Universities	To investigate the link between the education of forensic accounting and accounting student competence.	The study concludes that, the inclusion of forensic accounting within the curriculum of the accounting department in Sudanese universities developed for a forensic accountant or the studying of forensic accounting increase the ability to detect the financial misstatement dispute in future.
4.	2017	Domino Ann Madeline Webinger Mariah, Giordano Gabrielle	An Investigation of the Factors that Impact the perceived value of forensic and investigative accounting.	To evaluate the perceived value of forensic accounting certification.	The study revealed that, empirical evidence as to perceived value of some of the more widely held forensic accounting certification. The increasing demand for qualified forensic accountant requires as means of demonstrating expertise in the field and obtaining a forensic certification is one way of doing so.

5.	2015	Mudel Sonia	Creative accounting and corporate governance- A literature review	To provide literature review on above two most debated topic.	The study concludes that, it is possible to minimize the negative effects of creative accounting practices by adopting accounting standards giving more importance to ethical consideration and decreasing to provide literature review on above two most debated topic the flexibility in the accounting methods because flexibility in accounting methods is the major cause of creative accounting.
6.	2015	Nag kr Amit	Is Creative Accounting Ethical- An Analysis into the Pros. And cons.	To understand the concept of creative accounting. To understand the techniques of creative accounting. To examine the pros. And cons. Of creative accounting.	The study shows that, companies want to show steady income to keep their share prices stable and to impress the investors. All these Urges the company to seek too creative accounting practices. But efforts could be made to encourage judicious use of creative accounting so that the solutions neither mislead nor misrepresents the results of business and give fairsolutions to the problems faced by the management of the business.

RESEARCH GAP

Based on the various reviews of literature, it is found that various studies have been carried outat national and international level which are generally confined to errors and frauds in financial statements, detection and prevention of financial frauds using forensic accounting approach.Few researchers have made an attempt to study on the role of corporate governance to control over frauds & scams and creative accounting practices but the weakness & related problems during accounting and auditing practices which frauds has not been examined at large and specially in India. Hence, the study entitled as **Lacuna in practices of accounting and auditing professionals leading to financial frauds in India** is primarily aimed to finding the Lacuna in practices of accounting and auditing professional leading to financial frauds in India.

NEED OF THE STUDY

This study will lead to identify the weaknesses and problems which are leading to frauds and scams in India, which can help as the alert for further accounting and auditing practices. The identification

of the various techniques of creative accounting which fulfill the role of statutory auditors and commitment of ethical standards. Every profession needs some specific knowledge & skills that related skills are needed to easier and faster the work in an accurate manner. So, with the help of this study required skills for accounting and auditing professionals will be identified to detect and prevent frauds and scams. Many time it is found that the creative accounting and financial reporting are inversely correlated, it means many practitioners are involved in these creative accounting practices which may decrease the value of financial information. So, the relationship of creative accounting on reliability of financial reporting in the form of various parameters will be assessed.

OBJECTIVES OF THE STUDY

This study will be conducted to achieve the following objectives:

- To examine areas of weakness and problems leading to frauds and scams in India.
- To identify the practices of creative accounting techniques in India.
- To assess the relationship of creative accounting on reliability of financial reporting inIndia.
- To study the necessary skills required by accounting and auditing professionals todetect and prevent frauds and scams in India.

HYPOTHESIS OF THE STUDY

H_{01}: There is no significant relationships between creative accounting and reliability of financial reporting

H_{02}: There is no special skills required in accounting and auditing professionals to detect and prevent frauds and scams.

Other Hypotheses will be framed and tested during the course of study as per need.

RESEARCH METHODOLOGY

SAMPLE SIZE AND SELECTION CRITERIA

As on 1 April 2021, Fellow full-time practitioners of ICAI, from all over India will be selected as the Sample for the study.

DATA COLLECTION

Data will be collected through primary sources as well as secondary sources.

Primary Data

As on 1 April 2021, full time fellow practitioners from all over India will be taken as population for the study. In order to define the number of respondents the Cochran's Sampling Technique has been applied

$$n_o = \frac{z^2 pq}{e^2} \ldots\ldots\ldots\ldots\ldots\ldots (1)$$

$$n_o = \frac{(1.96)^2\,(0.5)(0.5)}{(0.05)^2}$$

$$\boldsymbol{n_o = 385}$$

$$n = \frac{n_o}{1+\frac{(n_o-1)}{N}} \ldots\ldots\ldots\ldots\ldots\ldots (2)$$

$$n = \frac{385}{1+\frac{(385-1)}{87000}}$$

$$n = 385$$

$$\boldsymbol{n = 385}$$

Here, N = Population Size

n = Sample Size

n_0 = Representative Sample for Proportions

z = Abscissa of the Normal Curve that Cuts Off an Area α at the Tails (Confidence Level i.e. 95%)

p = Estimated Proportion of an Attribute that is Present in the population

q = 1-p

e = Level of Precision (0.05)

Hence, In order to collect the information from the respondents, as many questionnaire will be distributed so that at least 385 valid responses are collected. The respondents will be selected on random and snowball techniques.

Secondary Data

The secondary data in the form of information necessary for the study will be collected mainly from reports and available relevant literature. National & International journals, articles as well as various authentic websites will be used as sources of secondary data.

DURATION OF THE STUDY

For the purpose of this study the data of financial years viz 2018-19 to 2021-22 will be takeninto consideration.

TOOLS TO BE USED

The study will be use descriptive statistics tools like correlation, chi-square test. In addition to above tools researcher may adopt few other tools during the course of study.

TABLE 3: SPECIFIC METHODOLOGY

S.NO.	OBJECTIVE	METHODOLOGY
1.	To examine areas of weakness and problems leading to frauds and scams in India.	To achieve this objective, a questionnaire will be served to respondents to examine the weakness and problems will be identified in accounting, auditing and corporate governance practices inIndia.
2.	To identify the practices of creative accounting techniquesin India.	In order to meet out this objective, a questionnaire will be served to practitioner of accounting and auditing profession to examine the creative accounting techniques, roles of statutory auditors in the creative accounting practices, the commitment of ethical standard, and the qualitative characteristic of accountinginformation, using five-point Likert scale.
3.	To assess the relationships ofcreative accounting on reliability of financial reporting in India.	In order to meet this objective, previous studies and reviews of creative accounting will be taken into consideration and various parameters will be identified impacting the reliability of financial reporting in India. A questionnaire will be framedto obtain responses on various parameters on five-point Likert scale and descriptive statistics, correlation, Chi-square test and Cronbach's alpha test will be conducted to examine the relationship among variables.
4.	To study the necessary skills required by accounting and auditing professionals to detect and prevent frauds and scams inIndia.	To achieve the objective the standards laid down, The International Education Standard No.3 skills requirement of Professionals accountants (that is auditors) will be examined in addition previous studies will also be taken into consideration to required set of skills, a questionnaire will be served to obtain as to what extent they agree on the statement which will be addressing on various competencies and skills of auditors. The rating will be done five-point Likert scale and correlation analysis will be carried out to test the hypotheses.

TABLE 4: PROPOSED CHAPTER PLAN OF THE STUDY

CHAPTER NUMBER	CHAPTER NAME
Chapter-1	Introduction

Chapter-2	Problems leading to frauds and scams in India
Chapter-3	Practices of Creative Accounting and its Techniques
Chapter-4	Reliability of Creative Accounting on Financial Reporting
Chapter-5	Accounting and Auditing Professional Skills for Prevention of frauds and scams in India
Chapter-6	Result, Discussion and Conclusion

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